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STATE DOCUMENTS

MESSAGE

OF

GOVERNOR JOS. M. DIXON

TO THE

EIGHTEENTH LEGISLATIVE ASSEMBLY

OF THE

STATE OF MONTANA

JANUARY 1, 1923

STATE PUBLISHING CO., HELENA, MONT.

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GOVERNOR'S MESSAGE

Members of the Eighteenth Legislative Assembly:

In obedience to that mandate of the constitution directing the Governor to "give to the Legislative Assembly information of the condition of the State and recommend such measures as he shall deem expedient,' I now address you.

You have assembled here today, bearing temporary commissions from the people of Montana, to legislate for them in your combined representative capacity. For the time being, the people of this state have entrusted to you the administration of their community business affairs. I doubt not that each of us is now endowed with high hope and full resolve to faithfully administer the trust imposed upon us. That there is and will be honest difference of individual judgment in a body of this kind, selected from every walk in life and with differing viewpoints and local interests, is axiomatic. But if each of us will approach the many mooted questions that will be presented in a real spirit of public service and with a mind open to honest conviction, and this Legislative Assembly will restrict the number of its employees to its actual needs, introduce as few bills and enact the minimum number of laws consistent with actual needs, and then adjourn, you will have earned the commendation of the people of Montana.

You meet under trying conditions, both as to the individual needs of our citizenship and as to the financial embarrassment of local and state government as well.

OUR FINANCIAL SITUATION

The responsibility that rests upon me as the Governor, and you as members of the Legislative Assembly, compels me to candidly call your attention to the financial situation that now confronts us in school district, city, county and state government.

Two years ago, in addressing the Seventeenth Legislative Assembly, I then pointed out the fact that the state government had during the year previous—1920—run in debt $1,982,084.25. That statement is based on the State Treasurer's report, showing:

FINANCIAL STATEMENT

January 1, 1918

Registered Warrants	$ 113,522.14	
Cash on hand	$1,414,314.60	
Net Balance on hand		$1,300,792.46

January 1, 1919

Registered Warrants	$ 784,356.69	
Cash on hand	$1,097,743.27	
Net Balance on hand		$ 313,386.58
A net loss for the year 1918 of		$ 987,405.88

January 1, 1920

Registered Warrants	$ 699,612.17	
Cash on hand	$1,079,722.19	
Net Balance on hand		$ 308,110.02

January 1, 1921

Registered Warrants	$1,682,437.02	
Cash on hand	$ 539,843.24	
Net Deficit		$1,142,593.79
Add deficiency unpaid claims to January 1, 1921		$ 459,490.46
Total Deficit January 1, 1921		$1,602,084.25
In other words, starting with a net balance in the state treasury on January 1, 1918, of		$1,300,792.46
And ending with a total deficit on January 1, 1921, of		$1,602,084.25
Showed a deficit for the three year period, Jan. 1, 1918,—Jan. 1, 1921, of		$2,902,876.71
The state ran behind for the year 1920		$1,982,194.27

That was the condition of your state government, according to the treasurer's report, when I took the oath of office as Governor two years ago. On January 1, 1922, the Treasurer's report shows:

Registered Warrants	$1,682,437.03	
Cash on hand	$ 125,978.53	
Net deficit		$1,556,458.50

January 1, 1923

Registered Warrants	$2,526,269.29	
Cash on hand	$ 252,349.16	
Net deficit		$2,273,920.13
Increased deficit for two year period		$ 671,835.88

SHRINKING ASSESSMENTS

In common with other states, there has been a steady decrease in the volume of taxable property in Montana since the high peak of 1918, as follows:

	Gross	Net
1917	$ 582,286,529	$582,286,529
1918	$ 589,304,187	$589,304,187
1919	$1,701,390,523	$526,596,140
1920	$1,668,024,106	$514,322,944
1921	$1,582,356,676	$495,678,376
1922	$1,471,232,575	$465,200,282

In addition to the steady decline in the total assessed valuation of property since 1917, the Treasurer's office shows the following steady decline in the state's revenues from other sources of income.

	Corporation (1%) Tax	License Tax
1917	$786,457	$320,962
1918	$557,758	$244,486
1919	$392,954	$ 34,483
1920	$240,130	$ 28,759
1921	$196,758	$ 30,368
1922 (To Nov. 30)	$ 97,746	$ 13,795 (to J'y 1)

Sundry Taxes Collected During Years 1921 and 1922, Under the License Tax Law Enacted at Legislative Session, 1921.

Coal

1921, 5 cents per ton	$127,990.82
1922, to Sept. 1st, 3 quarters only	$ 78,317.16
Total	$206,307.98

Cement

1921, 5 cents per barrel	$ 13,399.64
1922, to Sept. 1st, 3 quarters only	$ 7,596.76
Total	$ 20,996.40

Gasoline

1921, 1 cent per gallon	$225,644.42
1922, to Sept. 1st, 3 quarters only	$143,102.35
Total	$368,747.05

Oil

1921, 1% gross production	$ 17,443.89
1922, to Sept. 1st, 3 quarters only	$ 13,562.73
Total	$ 31,006.62

Metal Mines

1921, 15 mills on net proceeds	$10,539.35
1922	$12,262.21
Total	$23,262.21

Confronted with these conditions as to revenue with which to carry on the various departments of state government that had been heretofore created by previous legislatures, and knowing the crisis that threatened, in my message two years ago I said:

> "I know of no legerdemain of finance that will permit the state government to function during the coming year, under the present system of taxation, revenues and expenditures," and then urged "This Legislature should eliminate every unnecessary board, commission and office and concentrate authority and responsibility in public affairs in exactly the same way you would in your private affairs."

The same admonition I would urge upon you with all the emphasis possible. Two years ago the Legislature, in response to that suggestion, did abolish eight boards and commissions and consolidated their work and jurisdiction into one Department of Agriculture.

In addition to the greatly increased efficiency of the new department, as against the disjointed work of the former eight separate boards, I would call your attention to the further saving in cost of operation.

The total appropriations for the eight former boards for the two years 1919-1920 had been	$100,380
As against the total appropriations for the new Department of Agriculture for the present biennium of	$ 77,250
A saving of	$ 23,130

COST OF GOVERNMENT

When we speak of the cost of government, the average person unconsciously connects taxation with the operation of state government at Helena.

For 1922, the entire tax levies in Montana for state, county, city and school districts, totaled $27,271,603.00. Of this entire tax levy, only $2,201,603.00 went to the state, the balance of $25,070,000.00 being spent by the local county, city and school districts. In other words, of each $100 $8.50 only was levied by the state as against $91.50 levied by the local communities.

Beginning at Home

Everyone seems to be in favor of reducing expenditures in government until it adversely affects him individually. Most of us want to economize at the expense of the other fellow.

There has been much criticism regarding the employment of too many deputies. There has been and is just grounds for the complaint, but I think you will find it largely confined to the larger counties, cities and state departments.

The suggestion has been made that the lowering of the classification of counties would automatically minimize this evil. The lowering of the present maximum 16 mill levy by counties and 10 mill maximum by cities would certainly bring concrete results in the amount of taxes levied.

The state government levy is fixed by the constitutional provision of 2 mills for the general fund, with 1½ mills additional for the educational institutions.

As a concrete example of salaries and deputies and local expenses. I recall the fact that 29 years ago I was elected County Attorney of Missoula County, which then also included the present counties of Sanders and Mineral. As that time the salary was $1500.00. Last year, the salary was $3000.00, a deputy at a salary of $2100.00 and also a stenographer at $1200.00.

You will find this same relative increase all along the line.

PURCHASING AGENT

Two years ago I found that purchases of all supplies for the state government and its various and widely scattered institutions were being made by scores of state officials and employees, each acting largely on his own initiative and with no common purpose. In response to my recommendation, the last Legislature created the position of a State Purchasing Agent. It is my judgment that no more forward step has been taken looking to the application of business methods in administering the state's business. More than $2,000,000 of purchases have been concentrated under one responsible head, at an overhead cost of about 1½% of the amount purchased. The saving effected to the state has been of great importance. In thus concentrating the buying of coal alone for the various state institutions, a saving of about $40,000 was effected in one year, as against the old system.

COMMISSION GOVERNMENT FOR COUNTIES

Believing that much inefficiency in our present form of local county and city government has been caused by divided control and responsibility, and that in this respect most forms of government are fifty years behind the great corporations in the matter of business administration, I recommended to the last Legislature the submission of a constitutional amendment permitting the consolidation of city and county governments under the commission form, and permitting counties to adopt that form of local business administration if the people of these communities so elect. This constitutional amendment was ratified at the recent election and I trust that you will provide the necessary legislation to carry the amendment into effect.

TAX COMMISSION

Being fully cognizant to the most inefficient methods heretofore prevailing in the matter of the assessment of inter-county properties, and the failure to equalize the assessment of the various kinds of property among the different counties, and impressed with the absolute necessity of some central authority vested with full supervisory control over the matter of assessments, I also urged upon the last Legislature the importance of a constitutional tax commission. The Legislature submitted and the people have ratified such an amendment to the constitution. Under its provisions, however, no action can be taken towards the creation of the new Board of Equalization until you enact the necessary legislation.

As the Attorney General has held that the old Board ceased to function in the issuance of the Governor's proclamation as to the ratification of the recent amendment, it is of extreme importance that the necessary legislation be enacted immediately as the revenue of the state is imperiled by possible lack of authority to collect the current revenue

from oil, gasoline, inheritances and other taxes. Having no doubt that this body would immediately take care of the urgent situation, I requested the force of employees of the Board to remain at their posts of duty since December fifteenth, so that the state's business might not suffer.

The old Board has been most fortunate in having had available for a few months the most valuable services of a former member of the Wisconsin Tax Commission, Nils P. Haugen. For twenty years, he was a member of the Tax Commission of that state. His vast knowledge and experience in these matters would be invaluable to Montana in organizing our own commission and I hope that you may find it both expedient and wise to permit a temporary waiver of the statute regarding residence, so that we may be able to avail ourselves of his services on the commission.

PUBLIC SERVICE COMMISSION

In 1913 the Legislature created the Public Service Commission and empowered the Railroad Commission to exercise the functions of the same. As the powers and duties of the Public Service Commission are so interwoven with the duties of the new Tax Commission, in the finding of values of public utitlity corporations for rate making purposes and as the new Tax Commission, in order to function, must of necessity overlap the work of the Public Service Commission in also making valuations for taxation, much duplication of work and expense can be saved by transferring the duties and powers of the Public Service Commission to the new Tax Commission. Unless this transfer of duties is made, there will be a duplication of expense in the work of the two commissions, which in the present condition of the state's finances should not be permitted.

IRRIGATION COMMISSION

The Legislature of 1919 created an Irrigation Commission and also placed its powers and duties in the Railroad Commission. Why the powers and duties of the Irrigation Commission should not have attached to the State Engineer's Office, which, under the law has charge of all the Carey Land Irrigation Projects in the state, is an anomaly.

Under the present arrangement, we have the State Engineer in charge of one kind of irrigation projects and another set of engineers in charge of irrigation districts organized under the Act of 1919. Surely both efficiency and saving in expense to the state could be effected by transferring the Irrigation Commission to the Office of the State Engineer.

In this same connection, complaint has arisen from the rather widespread fear that under the present statutes governing the formation of irrigation districts and the issuance of bonds against the lands of unwilling owners, whose lands are included in these irrigation districts, that property may be subjected to taxation that might, at times, be confiscatory. I would suggest a careful investigation of this matter, in the belief that some more equitable adjustment may be made.

STATE ACCOUNTANT

In the separate divisions of State Accountant and State Examiner, we find another instance of divided jurisdiction in matters pertaining to the same general line of work. The State Examiner's office is charged with the duty of examining and auditing all state, county and municipal offices. The State Accountant audits the accounts of all state institutions and in addition prepares the state budget.

This division of jurisdiction does not make for efficieney or economy and I recommend that the office of State Accountant be abolished and that the duties of that department be transferred to the office of State Examiner.

TUBERCULOSIS SANITARIUM

The rehabilitation work being done at the Tuberculosis Sanitarium is of real importance to the people of this state. Unfortunately, more than fifty per cent of the patients received there are in the advanced stage of the disease. More than half of the cases are bed-ridden, which obviously makes a heavy maintenance cost per capita. During the past year this has averaged $20.00 per week per patient. Under the present statute, only $7.00 per week is paid by the county from which the patient comes. If each county contributed its quota according to population, this would not be of material consequence, but the records show that a heavy excess cost to the state arises from the fact that the mining and smelting communities furnish an extra heavy quota of patients on account of the widespread prevalence in those industries of silicosis, or, as it is commonly called, "Miners' Consumption." The records for the past four years show that 395 out of the 666 patients treated, or 60 per cent of the total, were sent from the three counties of Silver Bow, Cascade and Deer Lodge. Last Year nineteen counties had no patients at this institution. In fairness to the other counties, I believe the counties furnishing patients should contribute at least $10.00 per week per patient, or one-half of the cost.

INSANE AND FEEBLE MINDED

The population at the Insane Asylum now numbers 1438 as against 1316 two years ago. The cost of maintenance has been and probably will be far greater than that of any other institution.

The state now has under construction four additional buildings at Boulder that will, when completed, accommodate 200 additional feeble-minded children, this in face of the fact that more than 500 of these unfortunates are now awaiting admission there. We might as well realize that these people will be life charges against the state.

Society must, in self defense, if from no higher motive, protect itself against this on coming crop of morons and feeble minded, else we contaminate the whole and the race itself will ultimately degenerate and perish.

In these two institutions, as well as at the State Orphans' Home at Twin Bridges, there is a wide divergence between the proportionate number of inmates, as to counties, as compared with population of counties.

At the State Orphans' Home, the Superintendent reports less than ten per cent of the children who have lost father and mother. In many cass both parents are living, but either on account of poverty or in some instances a deliberate intent to shirk parental responsibility, the children have been turned over to the tender mercy of the state. I am satisfied that state maintenance for these unfortunate children has been in some cases abused by local authority, in order to deliberately shift local financial responsibility onto the state. As a matter of fairness in the distribution of the cost of maintenance at these three state institutions, the present law should be amended so that at least one-half of the monthly cost of maintenance should be borne by the county from which the individual inmate comes.

NON-INDIGENT PATIENTS

Under the law, district judges, in making the order committing patients to the Insane Hospital, are required to ascertain whether the patient has estate or relatives able to pay the cost of care at the state institution. My judgment is that there has been some laxity on the part of some judges in this regard. The records at the institution itself amply demonstrate that there has been in the past still greater negligence in making collections from guardians and relatives charged under the court order with payment. Last year the State Board ascertained that only a small proportion of the amount due had ever been collected from

these "pay patients," and inaugurated a movement for the collection of such accounts as, after the lapse of years, seemed solvent. Had these bills from "pay patients" been looked after and current collections made in accordance with good business administration, the state would have saved more than $100,000 in the cost of maintaining the institution.

Suffice it to say that the entire collection from "pay patients", according to the report of the former Superintendent, for the eight years preceding December 21, 1920, had only totaled $58,781.00
During the past two years we have collected from the same source $64,090.00
In other words, the average collection per year from the source during the past two years has been $32,045.00
As against an average yearly collection the previous eight years of ..... $ 7,347.00

THE STATE PRISON

The operation of the State Prison for the years 1919 and 1920, according to the official report filed by the former Warden in December, 1920, showed an indebtedness incurred, represented by outstanding deficiency claims against the state, of $136,823.58. This indebtedness for the two years was over and above the appropriation of $410,000.00 that had been made by the previous Legislature for the maintenance of the institution. It afterwards appeared from the records that there was more than $30,000.00 additional unpaid "deficiency" claims incurred prior to January 1, 1921, that had not been certified to the last Legisture, but which were afterwards paid out of the new appropriation of $53,636.00, made by the Legislature in February, 1921 for the maintenance of the Prison for the four month period March 1 to June 30, 1921.

In April, 1921, in accordance with the prerogative devolving on the Governor of the State, and after about one month's interim from the expiration of the former four year commission, I appointed a new Warden at the State Prison. Based solely on statements in writing presented at my office, by persons who professed to know the facts of their own knowledge, that there had been gross misappropriation of a great amount of State property by the former management and after first having sent a disinterested and trustworthy state official to investigate the charges made, whose report tended to corroborate the original charges, in accordance with the express provision of the constitution of the state, I ordered a full investigation to be made of the truth or falsity of the charges.

After an exhaustive investigation of the whole matter, the commissioner to whom was entrusted the duty of making the investigation filed his report in my office. The report in detail showed that for many years the former Warden had acted both as purchasing agent and receiving agent for the institution. It also conclusively showed, from the official record in the Auditor's office, that goods and supplies of various kinds, amounting in the aggregate to more than $100,000 had been purchased, priced, weighed and received by the former Warden from himself or from a copartnership firm, in which he was a partner, or from corporations in which he was heavily interested as stockholder or manager.

These goods and supplies included a large portion of the meat consumed by the prison, about $28,000.00 of which had been billed to the state in the name of a third person, who admitted that he had no primary interest in the matter as the real owner. The supplies so sold to the prison by the former official also included all the milk, butter, electric light, electric power, water supply and various other supplies used by the state.

The report showed that it was costing the State of Montana about $1.97 per capita per day to feed and cloth our prisoners, as against an

average cost of 60 cents per day in our neighboring state of Washington, and an average cost of 96 cents per day in all of the state prisons of the United States during the same period.

The report also showed that about $15,000.00 of material belonging to the state had been used and intermingled with about $6,000.00 of material belonging to the former Warden, that had been used in the construction of buildings on land not belonging to the state, but which the former Warden claimed had been taken in his own name to be turned over to the state, in the event the state should reimburse him, but not otherwise.

The report showed that, in the opinion of the commissioner, there was about $200,000.00 due the state on account of these various transactions.

On the filing of this report in my office, acting under the belief that I ought at least to try and protect the interest of the state, I transmitted the report to the Board of Prison Commissioners and at the same time notified the Attorney General of my action.

Some weeks later the Attorney General, after an examination of the report and the evidence, brought suit to recover the sum due the state. The action was tried before a District Judge in Lewis & Clark County, sitting without a jury. The Judge in question held that there was nothing improper about the various transactions and in addition held that the state owed the defendant for a second hand automobile the sum of $300.00, for which no bill or claim, to my knowledge, had ever been presented prior to the commencement of the action.

The awarding of the judgment to the defendant also carried his cost bill of about $1700.00. The report made to me by the State Accountant's office shows the bills paid for operating the State Prison during the last year under the old management, from May 1, 1920, to May 1st, 1921 to have been $324,486.87

And the cost of operation of the State Prison under the new management for the succeeding year to have been $177,428.55

A difference in one year of $147,058.32

TO FURTHER LESSEN COST

The State owns no land at the State Prison. About three miles distant the State owns the school section formerly used by the State Highway Commission and now utilized by the prison management. This section of land has no water supply but is used as pasture land. For several years the Prison management has leased a tract of land about one mile distant, about 300 acres of which is irrigated, on which is now produced the vegetables and hay for prison use. But this year to year arrangement is a most uncertain and unsatisfactory arrangement.

The 350 prisoners now maintained at a cost of about $160.000.00 per annum, should at least earn their own bread and meat without cost to the state. The institution should own not less than 600 acres of arable irrigated land, with pasture land in proportion, where these men could be worked in profitable dairy and stock farming.

A PRISON TANNERY

I believe it to be possible to establish there a state tannery, where the farmers and stockmen of the state could have their annual crop of hides tanned into leather and also made up into farm harness for use by the farmers and stockmen who furnish the hides.

Under present conditions more than one-half of these unfortunate men cannot be provided with occupation. The result is physical and mental deterioration. There is no reason why these men should not make their own socks, shoes and clothing, and, in addition, all of these same articles now consumed at the Insane Asylum and the institution for the Feeble Minded. I do not believe that the organized labor of Montana will raise any protest against a program of the kind outlined above,

which, in addition to bringing relief to the taxpayers, will also serve a far greater purpose from a humanitarian viewpoint.

If, before this session adjourns, you find that an adjustment of the state's revenues will permit, I would strongly urge upon your consideration an appropriation sufficient to cover the cost of land purchased and the installation of a state tannery at this institution.

STATE FARM LOANS

Two years ago I called the attention of the Legislature to the then alarming condition that confronted us in the matter of delinquencies on farm loans from the permanent school fund. At that time I found that the former Board of Land Commissioners had invested, up to November 30, 1920, $4,267,470 in these loans and at that time 651 of the 2133 loans were delinquent in interest payments, or the equivalent of 33.1%. I now have to report to you that 1037 of these loans, or 45.4%, are delinquent in interest, ranging from one to five years.

While we have realized the tragedy that these borrowers of school funds have faced during the five years of unprecedented drought and deflation of farm products, and while we have had no possible desire to do aught to in anyway harass or embarrass these unfortunate debtors, we have been compelled to foreclose 108 of these loans, where the land had been abandoned or where the individual loans were so hopelessly involved with delinquent taxes and interest as to make repayment hopelessly impossible.

In making these foreclosures, involving a total original investment of $257,374.00 of the school funds, we have also been compelled to expend $27,817.00 in redemption from delinquent taxes, abstracts of title, sheriffs' fees and publication of summons. We have added nothing for attorney foreclosure fees except the nominal pro rata cost in traveling expenses incident to foreclosure, averaging about $14.00 in each case.

In addition to these 108 cases where foreclosure has been completed, there are 155 foreclosure actions pending in the various counties and 220 additional loans submitted to the Land Board for foreclosure. In addition to the above costs incurred on loans already foreclosed, the Land Board has been compelled to pay out the additional sum of $68,135.00 to protect the state's title on other loans in the matter of delinquent taxes.

I am sure that you will agree with me in the statement that the state does not wish to retain these lands in ownership to itself and will gladly extend every aid possible in seeing them restored to their former owners, wherever it is possible to do so.

The plan has been suggested, and I hope it can be legally carried out, to have these same lands resold to their original owners on the 20 year amortized payment plan now in vogue in the purchase of other state lands. These twenty year payment contracts carry a five per cent interest charge and the purchaser is required to pay down only 15% of the purchase price.

I submit the proposition of allowing these foreclosed lands to be resold to the original owners on those terms if the Legislature can constitutionally permit such sales without competative bidding by outsiders.

If this plan is impossible under the constitutional limitations, is it possible by statute to devise some way by which the original owners can exercise a right of redemption on the payment of 15% cash, the balance to be amortized by 20 year payments at five per cent interest charge? The solution must come from you, as the Land Board can only act under the provisions of the present statutes.

STATE FORESTER

The timber lands owned by the state constitute a heritage of great importance and immense value. Their administration during the past

two years has been in charge of an experienced and practical forester, who has had many years of training in both executive field and office work with the United States Forest Service in Montana.

During his administration of the state's forest lands, many abuses have been corrected, past due accounts collected, sales increased and the office rehabilitated. Unfortunately, the salary of State Forester was fixed twenty-five years ago and bears little relation to work and responsibility involved.

With modern methods and under the administrative control of a competent State Forester, these timber lands can yield an annual cash timber crop return of ronsiderable magnitude. But we cannot hope to longer secure the services of a competent forester unless the state is willing to pay a salary commensurate with the work involved. There should be an immediate readjustment of both the salary and the law governing the forest lands.

MAKING DEPARTMENTS SELF SUPPORTING

In view of the present situation of the State's revenues, I would suggest that considerable relief to the state treasury would come by revising the present statutes governing:

1st, Bank Examinations.

2nd, Industrial Accident Board.

3rd, Livestock Commission.

Each of these departments of government are of great importance to the special group of citizens affected. At the same time, the direct resultant benefits flow to these same special groups.

The Federal Banking Act makes the examination fees for national banks cover the entire cost of the service. Our state bank examination fees, fixed years ago, do not quite cover the cost to the state. A slight readjustment would relieve the state treasury of this yearly charge.

The same condition prevails as to the Livestock Commission.

The same situation should obtain in administering the work of the Industrial Accident Board. The Industrial Accident Board has functioned most efficiently during the past two years, and at a net cost to the state of more than one thousand dollars per month less than the previous year.

If this Legislature can see its way clear to revise the statutes governing these three departments so as to make each of them entirely self sustaining, it will relieve the state treasury of an annual charge of about $60,000.00.

WORKMAN'S COMPENSATION ACT

In the administering of the Workman's Compensation Act, the Board has made certain recommendations for minor changes in the law in their report just published, which will, in their opinion, make for the better administration of this most important branch of state government, and to these recommendations I would now call your attention.

In addition to these suggestions by the Board, as to administrative features, I would further renew my recommendation made to the last Legislature, that individuals employing farmers and stockmen be permitted to come under the provisions of the law, if they so desire.

I understand that about 6 per cent of employers of labor in hazardous occupations, largely composed of the transcient, and ofttimes financially irresponsible class of employers, are not compelled to insure the safety of life and limb of their employees.

The present law should be made fully inclusive and compulsory as to this small class of employers.

Under the present law, the administration is entirely defrayed by the taxpayers of the state instead of by the employers, as in many other states it is done. Under the present law, when a man is killed who has no dependent relatives, the law provides no other compensation than the

price of a coffin. I believe that the law should be amended so that in case there are no dependent relatives, 25% of the amount that would have been paid to dependent relatives should be collected for the overhead cost of administration, now borne by the state and for the rehabilitation work, now being done by the state for men, women and those who have been crippled or maimed in industrial employment or otherwise.

I believe further that most of us are or should be in agreement that the present law should be amended so as to include in its provisions the victims of occupational disease growing out of and incidental to their employment. I can see no just or humane reason why a man "leaded" in a smelter or who contracts silicosis or "miners' consumption" in a mine should not be compensated in exactly the same way as if he had lost an eye or limb or been incapacitated by any other form of physical injury. In each case, the resultant effect is just the same. The loss of support to himself and dependent wife and children is as much of a tragedy in one case as the other and should be borne by society as a whole.

REDISTRICT JUDICIAL DISTRICTS

Two years ago, I urged upon the Legislature the elimination of two district judgships in the Fourth and Fifth Judicial Districts, where the judges had recently died and where I believed the work could have been efficiently carried on by the remaining judges. In fact, I withheld appointments of their successors until after adjournment of the Legislative Session, so as to eliminate the personal equation when the abolition of officers is suggested. The elimination of these two offices would have saved the state about $20,000.00 each year.

I still believe that a restricting of the Judicial Districts of the state could be made, at a saving of not less than $50,000.00 per annum, without impairing the efficiency of our courts.

NON-ENFORCEMENT OF LIQUOR LAWS

I would be remiss in my duty if I did not call to your official attention the wide spread and in some localities the open and notorious violation of the laws prohibiting the illegal sale of liquor.

While it is my belief that most of the officials are conscientiously doing their best to enforce the law, in many instances this is not true and its violation is by certain officials winked at, tolerated and made nugatory. The very fact that its non-enforcement in the high places of society is joked about, even in the public press, makes its enforcement in the more humble walks of life far more difficult.

Two years ago, during the legislative session, it was common rumor that illegal distribution and violation of the law was of daily occurrence almost within the shadow of the dome of the Capitol itself. It was my belief then, as it is now, that the provisions of the State and Federal laws should be concurrent. In so recommending to that Legislature, I realized that the medical prescription might be abused by some practitioners. It has been, yet I believe that the overwhelming proportion of the physicians and druggists of the state have honestly endeavored to preserve the spirit of the law. I believe that the relative comparatively small number of flagrant abuses that have occurred in this regard can almost wholly be eliminated by reducing the number of prescription blanks allotted to the individual practitioner.

I would further recommend that the penalty provision of the law be changed so as to make mandatory a penitentiary sentence for the second offense. While we hear much of the violations of this law, we sometimes are prone to overlook the fact that the laws against larceny, adultery and homocide are also violated every day.

Whatever may be your individual judgment as to the wisdom of the prohibition law, the fact remains that the population of our jails and

state prison has been reduced more than one-half since January, 1918.

ASSESSMENT OF STOCKS, BONDS, AND WARRANTS

Under our present classification law of property for taxation, stocks, bonds, and warrants are placed in a seven per cent class in the belief that the forty per cent rate, as applied to banks would be confiscatory if applied to this low interest saving form of property. Under the Federal Banking Act, the States are prohibited from assessing national banks at "a higher rate than other monied capital."

More than a year ago the Supreme Court of the United States held that the State of Virginia, operating under a property classification law, very similar to our own, could not assess a national bank in that state "higher than other monied capital" as represented by stocks, bonds, warrants, etc. Fortunately, the national banks in Montana have, except in a very few instances, not attempted to take advantage of the technicality involved. A few have done so, to the extent of paying their tax assessment "under protest."

A district court in eastern Montana, following the United States Supreme Court decision in the Virginia case, has recently held that to the amount of stocks, bonds, and warrants owned by the national bank in question, it is, under the Federal Banking Act, entitled to have its assessment reduced to that extent from the 40% class to the 7% class. The case has been appealed to our own State Supreme Court, but has not yet been decided. I understand that some other national banks, in the same vicinity, also paid their 1922 taxes "under protest" awaiting the outcome of the pending appeal to the Supreme Court of Montana.

You can readily understand the threatened peril to our state, county and school district finances should all the national banks in Montana choose to take similar action, in the event of reaffirmation by our State Supreme Court of the District Court decision.

It is only the fact that you will in all probability not again be in session during the coming two year period, that impels me to thus warn you of the threatened danger and leave the solution to your wise judgment.

FILING FEES

I would also call your attention to the present wide discrepancy in the filing fees charged by the Secretary of State, under the present statute, between foreign and domestic corporations, that gives a standing invitation to large organizations of capital, which intend to operate in Montana, and yet find it much cheaper to incorporate in other states. Montana is losing each year a considerable revenue by our own failure to equalize these filing fees.

STATE PRINTING

An examination of the budget records will show that one of the major items of state expense is that of printing. The printing bill for the last Legislative Session alone amount to ..... $ 26,622.89

The printing bill for all departments of state government for the fiscal year, March 1, 1920, to March 1921, eliminating legislative printing, amounted to $126,835.08

For the four month interim (on changing beginning of fiscal year) March 1, 1921, to July 1, 1921, eliminating legislative printing ..... $ 44,406.11

For the fiscal year July 1, 1921, to July 1, 1922 ..... $ 89,559.75

For two years and 4 months, totaling $287,423.93

It should be a source of some gratification to you to know that eliminating the legislative printing bill, the average monthly cost to the state decreased from $10,570 per month for the fiscal year March 1, 1920, to March 1, 1921, to $7,442 per month during the succeeding 18 month period ending July 1, 1922.

I find that one great factor in the cost of state printing is the provision in various statutes requiring the various departments to publish

each year or each biennium various and sundry reports in varying quantities. These provisions, together with the natural pride inherent in all of us to have "our" specific department report show well, both in quality and quantity, sometimes leads to encyclopedic volumes of information, both bulky and expensive. I think the cost of state printing could be materially modified by a general statute, investing the Governor with the discretionary power of limiting publications to the actual needs of the various departments. In this way, you could place direct responsibility for good or bad results.

I would call your attention to one specific waste of public money, under the provision of the Initiative and Referendum Law (Sec. 105, Political Code) requiring magazine covers on the printed pamphlets that are mailed to the individual voter. These unnecessary magazine covers on the Pari-Mutuel and Soldiers' Bonus measures cost the state $30,038.00 last year. I understand the cost of magazine covers on the pamphlets sent out for the 1920 election gave an added cost of more than $10,000.00 to the printing bill that year.

This section should be amended so as to eliminate this wholly useless expense.

CAPITOL COSTS

I am also pleased to report to you a material reduction in cost of operating the State Capitol building during the past two year period, as the following figures from the state budget for fuel, light, water and janitor service will show:

For the year beginning Feb. 1, 1920, and ending Feb. 1, 1921....$60,212.51
For the year beginning Feb. 1, 1921, and ending Feb. 1, 1922....$47,786.46

Being a saving in one year of $12,426.05

DISBURSEMENTS BY THE GOVERNOR

In accordance with the provisions of the Constitution, I submit the following statement of moneys belonging to the state and received by the Governor and by him paid to the State Treasurer for the years 1921-1922:

	1921	1922
25 per cent forest reserve receipts	$25,740.48	$57,600.14
5 per cent public land sales	$13,087.83	$ 7,337.50
Total	$38,828.31	$64,937.64

SHEPPARD TOWNER ACT

Last February the Secretary of the Treasury transmitted to me official notification of the enactment by Congress of the Sheppard-Towner Act for the promotion of the welfare and hygiene of maternity and infancy.

Under its provisions there was available to the State of Montana for the fiscal year ending June 30, 1922, $10,000 outright and $8,701 additional if matched dollar for dollar by the state. For the succeeding five years a total of $13,701, of which $5000 is given outright and $8,701 if matched by the state.

The Act provided that pending the next session of the State Legislature, the Governor might accept the provisions of the Act "for a period which expires six months after the close of the next regular session of the State Legislature."

This acceptance I filed on February 9, 1922, and designated the Child Welfare Division of the State Board of Health as the agent to carry out the provision of the Act in Montana.

Any further participation in these federal funds can only be had by action taken by you, in accepting or rejecting the provisions of the federal statute.

FORT ELLIS MILITARY RESERVATION

In 1891 Congress enacted a law, under the provisions of which 640 acres of the abandoned Fort Ellis military lands were granted to the state for use for public purposes, with a provision that the same should revert to the United States whenever the state should cease so to use the land. While the Legislature has never yet specifically designated any particular purpose for the use of this land, it has, as a matter of fact, been continuously used for experimental purposes by the Agricultural College.

In order to avoid any possible complications, I would recommend that you take appropriate action toward legally dedicating the land to the use of the Agricultural Experiment Station.

FISH AND GAME

Two years ago I urged the Legislature to take the Fish and Game Department completely out of and beyond the control of cheap, petty, party politics and put it on the higher plane of a great public benefit to our state by the creation of a non-partisan Fish and Game Commission. In response the Legislature created the present efficient Fish and Game Commission. During the past twenty months of its existence, it has done more in the way of constructive work to rehabilitate wild life in Montana than has been done during the ten years preceding period under the old system.

The extension of state fish hatcheries, the building of rearing ponds, the introduction of new kinds of game birds, the better protection of wild life in general, the co-operative work being done with the United States Biological Survey in the extermination of predatory animals by the present Fish and Game Commission, has given new hope to the sportsmen of the state. The fact that the entire cost of the department is being borne by the sportmen themselves, through the fish and game licenses, without the levy of one dollar in taxes, is a cause for gratification to us all.

FARM PROBLEMS

I think that all of us have now come to a full realization that there can be no permanent prosperity in Montana until agriculture is again remunerative.

Certain economic factors beyond the rontrol of land owners directly affect land values in their relationship with values of other forms of property. These factors may be and often are entirely independent of any change in the productive capacity of the land itself. They operate on land everywhere. The result now is evident in a distinct lowering of land values below their war and later pre-war levels, and relatively lower than many other forms of property at the present time. Most of Montana's land passed into its present ownership under conditions that obtained just before the war. Comparisons should be drawn, therefore, between conditions existing then and now. It is not necessary to consider all factors affecting land values. Three will illustrate the point. They are (1) freights; (2) indebtedness; and (3) purchasing power of farm crops. Their operation at the present moment is reasonably well known to all of us.

Freights

Cost of transportation of crops to a price making market is a factor that definitely influences land values. Lower freights and in effect you move the land nearer the market; increase freights and you move the land farther away. Use wheat to illustrate the direct relation between freight and land values. Freight on wheat from Montana points to Minneapolis in 1922 is 40 per cent higher than in 1913. Conditions make cost of production of wheat vastly greater in 1922 than it was

in 1913. Obviously, the higher cost of freight cannot be taken out of production costs. Its direct and immediate effect, therefore, is in lowering land values.

An analysis of the increase in freight rates on farm products since 1914 will show that Montana farm lands have, in resultant effect, been moved 400 miles farther away from market.

Indebtedness

Most of the present debt of the farmers of Montana was incurred prior to and during 1919 during prevailing high prices for farm products and high costs of operation. For illustration, let us assume that a farmer's indebtedness in the fall of 1919 could have been paid by 5,000 bushels of wheat and this burden was laid on the land to produce. At this time, in 1923, it will take 10,000 bushels of wheat to pay off that same indebtedness, not making any allowance for the accumulation of interest in the meantime. This condition was aggravated, of course, by the failure of the land to produce abundantly during the period of high prices of wheat. Thus has the actual debt-paying value of the land been impaired.

Purchasing Power

The index numbers of buying power of farm products prepared by the United States Department of Agriculture show that the purchasing power of farm products, expressed in terms of other products, for September, 1922, stands at 64 as compared with 100 for 1913.

Lower the Assessment Ratio

In evidence of our good faith and as a concrete step toward the rehabilitation of agriculture and as a matter of fairness, I would recommend that in the classification of property for net assessment, all land and improvements be reduced from the 30 per cent to a 25 per cent class.

For the sake of all the people, thought of what steps the State can take toward restoring agricultural prosperity should be taken at this time. Fundamental needs are cheaper credits better adapted to agricultural purposes; marketing opportunities that secure for the producer the greatest possible share of the consumer's dollar; lower freights; and an early readjustment between prices of agricultural products and of goods for which they are exchanged, now so sharply out of line that correction must precede any real improvement. It cannot be seriously urged that all these needs can be met by legislation, but this assembly in its wisdom can accomplish certain definite things to create better opportunity for agriculture.

FEDERAL FARM CREDITS.

Congress may be expected this winter to provide avenues for better land and marketing credits. This is not with the aim of creating more debt, but of replacing existing obligations with others better planned for farmers to meet. It is our duty to take action that will give Montana farmers full advantage of that relief. A safe warehouse receipt that will at all times protect the grain owner in his title to his wheat will be the basis of credit to the grain farmer. Certain changes in our grain laws are required to that end, and storage space to which grain can be moved and stored under state direction should be provided if possible.

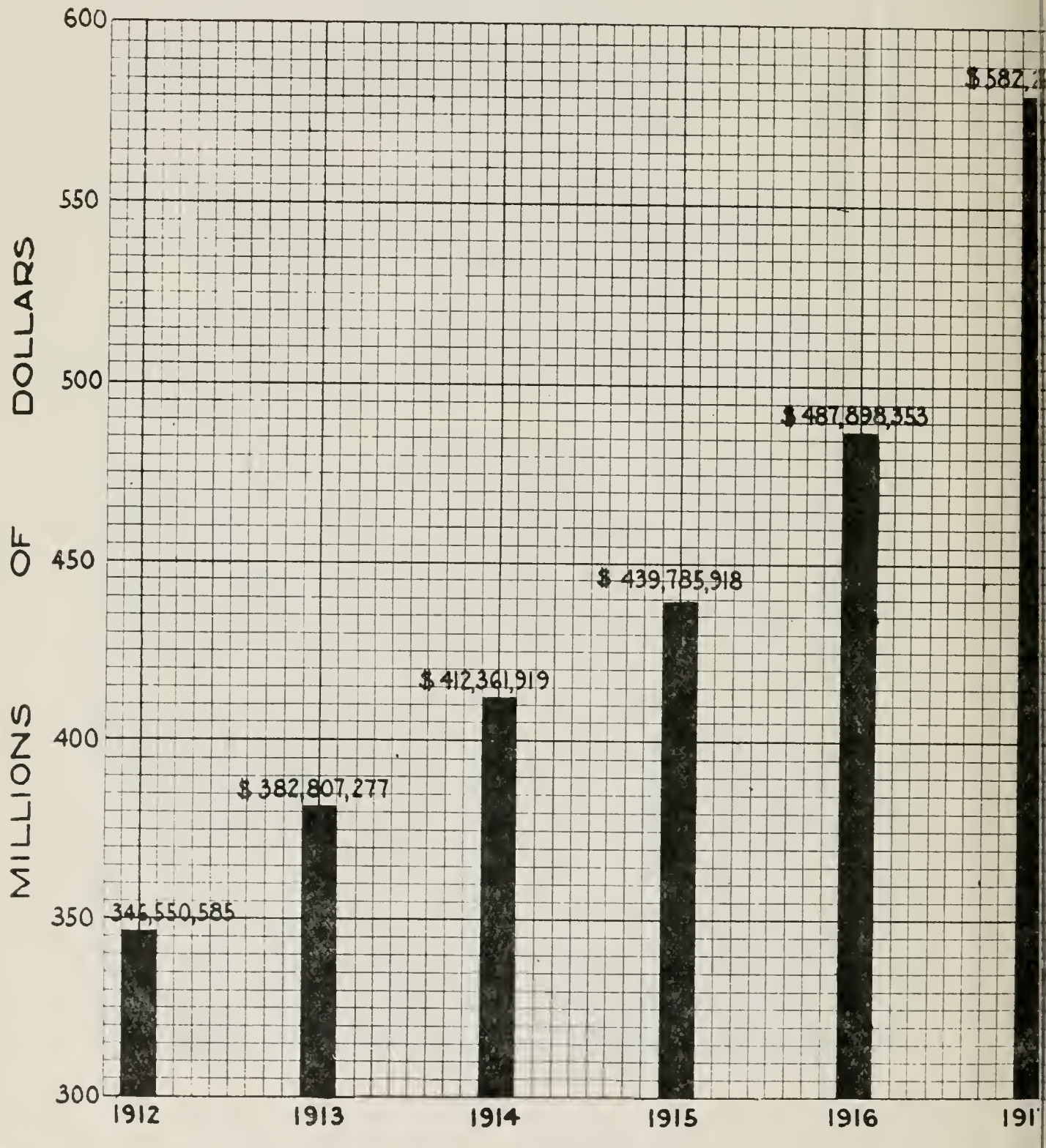
If the federal agency charged with administering marketing credits planned in legislation now pending before Congress will approve as collateral a farm storage receipt for grain that has been measured, inspected, graded and sealed on the farm, legislation similar to that recently enacted in Nebraska would be of great value to Montana.

MONT

COMPARISON OF TAXA

SHOWING VALUE
SUBJECT TO ADVALO

1912 T



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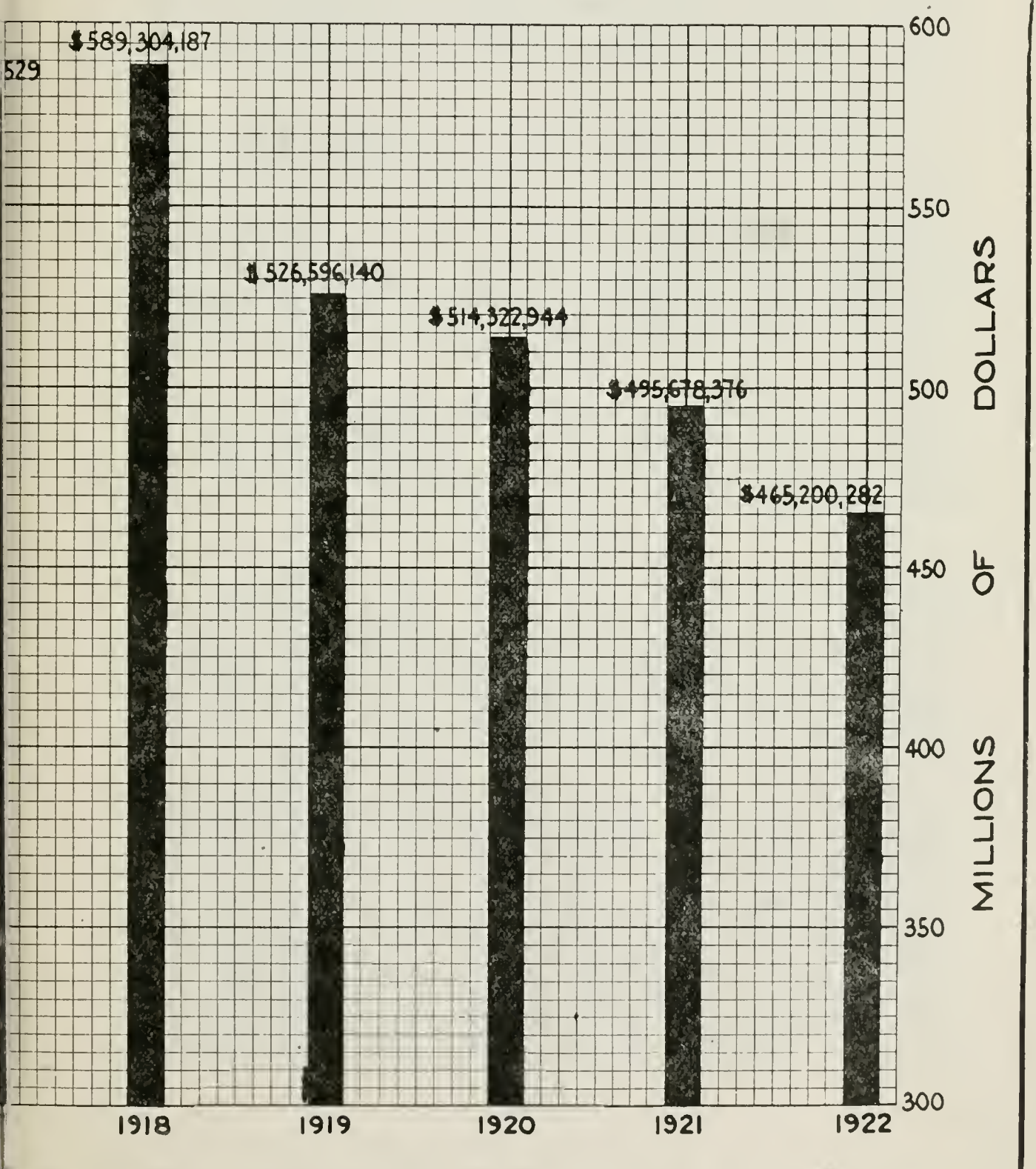


Our Grain Law.

Certain provisions of Montana's grain laws appear to give privileges to the grain trade in the handling of wheat in storage denied them by laws of the other spring wheat states, which, in some instances, might be used to the disadvantage of the farmers. The soundest method of regulation of the margin of profit of grain traders is through the competition of direct farmer shipping and of strong co-operative farm marketing associations. To give this form of competition freedom to function, the Montana grain law should be amended, particularly in defining the rights of owners of grain stored in public warehouses.

While I have approached final conclusions in the matter with great hesitancy, it is now my judgment that no regulation of the grain trade in Montana will be effective until elevators are declared public warehouses by statute. This has long since been the declared public policy of Minnesota, South Dakota, North Dakota and Canada. The present Montana law, in effect, gives the elevator owners the veto power over regulations issued by the state's supervising authority of the Department of Agriculture.

Dairying.

The importance to all of the state of the growth of sound co-operative marketing organizations, particularly in marketing grain and butterfat, calls for every encouragement possible to give in Montana's present condition.

Montana is not gaining in the dairy industry as rapidly as natural conditions warrant, and for this it seems well established that a marketing condition is at least partially responsible. Removal of unsanitary and unfit cream stations, with incompetent cream testers and buyers in charge, thus preventing deterioration of cream after it has left the dairymen's hands, would place a premium on high grades and would reward the competent and careful dairyman.

Arrangements should be made by the State, if possible, so that owners and buyers of dairy cattle may have advantage of federal credit agencies that have operated in behalf of other branches of the livestock industry. Add to these provisions a real anti-discriminatory price law to replace the present unworkable one, and the basis for sound development in the dairy industry would be laid.

DELINQUENT TAXES.

The delinquent tax list in Montana now approximates ten million dollars. This vast sum is largely due and owing from a class of our own people whose financial reverses have made it impossible to pay. It is estimated that more than 80 per cent of this amount represents delinquent taxes on farm homes. Every person who was so unfortunate as not to have been able to pay his tax when due was first penalized 10 per cent on the original tax and to this 110 per cent tax has been added an interest charge of 12 per cent per annum. The natural result is a slow process of confiscation.

The annual publication of delinquent tax sales carries the story of tragedy in the lives of the people whose names are there listed. When the delinquent "tax sales" ripen into "tax deeds" to the county, this same land is furloughed from further tax levies until the land again comes into private ownership, thus increasing the tax burden on other property in the community.

If, in its combined wisdom, this Legislature can devise some sane plan to liquidate this ten million dollar delinquent tax list, the immediate embarrassment of school districts, county and state government can be solved. I would at least suggest to you the question as to whether or not it is possible by legislative act to permit all delinquent taxes to be fully liquidated on or before January 1, 1924, upon payment of the original tax, plus advertising costs of sale and straight 7 per cent interest since date of delinquency.

While I realize the danger attendant upon special legislation, I believe the emergency that we now face justifies some action similar to that above outlined. Will it not save to the commonwealth thousands of home owners and tillers of our soil who, under the present staggering load, must eventually succumb?

SEMI-ANNUAL TAX PAYMENTS.

It has frequently been suggested that if we followed the plan that has been adopted in some states of permitting the payment of taxes in semi-annual installments, much relief would follow. Taxes are now delinquent December first. There is no inducement to pay earlier and a great inducement to pay before penalty is added. As a consequence, nearly all taxes are paid during the last ten days of November. This always necessitates the employment of extra and, sometimes, incompetent help. The county, city, school district and state bills do not all fall due at one time, but average about the same each month.

A plan has been suggested that in lieu of the present law imposing a 10 per cent penalty on December first, followed by cost of immediate publication and sale, with 12 per cent interest, that taxes be made to come due October 31st, but not delinquent until May 31st following.

That on all taxes not paid by October 31st, but paid during November and December, an interest charge of 8 per cent attach; that all taxes paid during January, February and March carry 10 per cent interest charge, increasing to 12 per cent during April and May. This would insure a steadier revenue for the counties, allow them to pay their bills in cash and save a large interest charge on warrants issued to run until tax paying time the following December. I recommend the plan to you as at least worthy of your consideration.

A PERMANENT ROAD PROGRAM.

Imbued with the spirit of real investigation of what had been done in other states and how best to set the machinery in motion here at home for the accomplishment of the common purpose in view, the Seventeenth Assembly almost unanimously enacted the present State Highway Commission law. It is largely based on the experience of our sister states.

No machinery of government ever has, or ever will, function 100 per cent perfect.

Yet, notwithstanding honest criticism from some and much loose talk by others, in nearly every instance based on lack of information and on misinformation, and at times degenerating into deliberate minstate-statement, the judgment of most of those who know the facts and who have been honest enough with themselves to ascertain the facts, is overwhelmingly commendatory of the work being done by the present Highway Commission.

I specitlly invite each and every member of this body to make the fullest investigation of the work that has been done by your present road organization. In the first place, it has been organized and maintained with not the least regard for partisanship in any form. As Governor of the State, with the exception of the three commissioners themselves, I have not inquired into, nor do I know either the political or religious affiliations of a single employee. With a full knowledge of the responsibility involved, I tried to find three big, experienced men to place at its head. With that one purpose in view, I selected George W. Lanstrum of Helena, Henry Good of Kalispell, each of whom have had years of practical experience in road building as county commissioners, and H. A. Templeton of Great Falls, for commissioners.

Work Done.

During the past twenty months of its existence 124 projects have been in process of construction in 32 counties, amounting in the aggregate to $3,900,000.

During these past two years the value of the work accomplished exceeds the value of the work accomplished during the preceding four years by an amount of $1,450,000. For the first time in its history, during the past year, 700 miles of road in 27 counties have been maintained and patrolled.

Unless new revenue is provided by this Legislature, Montana cannot match Federal aid for road construction after this present year, thus bringing to an abrupt close all state activity in road development for Montana, with a loss of $6,500,000 in Federal funds, of which about $2,200,000 is already appropriated by the United States government for building roads on Forest and Indian reservations, without the cost of one dollar to the people of this state.

The abolishing of the Highway Commission means that this money will be immediately withdrawn from Montana and revert to other states, as the Federal Road Bureau will not function in building these proposed roads except through the machinery of a State Highway Commission. Upon you rests the final decision. I recognize the fact that there is some sentiment in favor of a complete shutdown on all road building. I believe that few of us would willingly see that done if some plan can be devised to continue road development without adding additional tax burdens.

AN AUTOMOBILE PROBLEM.

Few will longer dispute the fact that the road problem is an automobile problem; that those who use the roads should pay for the roads. Last year Montana's automobile bill, for purchase, depreciation and maintenance, exceeded $36,000,000—the value of our entire wheat crop. In other words, we spent last year for automobiles one-third more than we paid out in taxes for schools, county, city and state government combined. We bitterly complain about confiscatory taxation and buy more automobiles. Like the Pharisees of old, we strain at a gnat and swallow a camel.

If we who own automobiles are willing to add 3 per cent to the price that we are now spending for automobiles, the State Highway Commission points out the way whereby we can continue to build 500 miles of road each year and in addition relieve the counties from the present cost of maintenance of the 4,700 miles of trunk highways.

This plan contemplates a gasoline tax of 2 cents per gallon, a readjustment of auto licenses on the present Minnesota or Oregon rates and the absorption of one-half the present federal oil royalities on crude oil production. Under the present distribution of the one-cent gasoline tax one-third goes to the public schools and two-thirds to the general fund of the state, which, as a matter of right, should go to the State Highway fund. These losses to the public school fund and the general fund of the state would have to be otherwise compensated.

In this connection, I want to invite your attention to the present unfair method of levying all taxes for road maintenance on property lying outside of incorporated cities and towns and furloughing city property from the burdens when we all know that we who live in the towns and cities use the roads as much, if not more, than those who live in the country.

TO EQUALIZE THE TAX BURDEN,

In my message to the Seventeenth Legislative Assembly I pointed out in detail, and in the light of subsequent events, believe that I conclusively demonstrated the truth of the assertion that under Montana's present archaic and unscientific tax code, written a generation ago and

no longer fitting the economic conditions that now prevail, most of the burden of increasing taxation was falling on real estate—farm lands and city property.

The truth is that taxes on land has reached the point where it now threatens confiscation. Intangible and invisible wealth is practically escaping taxation here in Montana. Realizing the imminent danger that threatened, progressive states, like New York, Massachusetts, Minnesota, Illinois, Iowa, Wisconsin and California, set about to solve this critical question. You ask, how? Largely through the equalization of the tax burden between realty and intangible property, by the enactment of new laws taxing inheritances, incomes, natural resources, public service corporations and the great industrials.

INHERITANCE TAX.

Probably the most equitable form of all taxation, and so recognized in all modern codes of tax laws, except Montana, is the "inheritance tax," graduated according to the amount of estate left by the decedent and differentiating between the direct and collateral heirs.

Two years ago, in recognition of this principle, the House of Representatives passed the Wisconsin Inheritance Tax law. Unfortunately, the Senate adopted 97 amendments, the result of which was to absolutely destroy the principle of the graduated tax as to the direct heirs, and limiting the tax to estates under $25,000. Under the law, as thus amended, California recently collected $452,000 from the estate of a former Montana citizen, while Montana collected from the same estate $150. It is estimated that our state treasury has already lost $500,000 on account of the Senate amendments to the inheritance tax law as passed by the House two years ago. I again recommend to your consideration the Wisconsin inheritance tax law.

PULLMAN CAR TAX.

It will be rather surprising to most of you to know that Montana has never collected any property tax from the Pullman Car Company, which operates so extensively in and through our state.

Other states have for years received their full quota of taxes from this source, while we have received nothing. I also commend to you the Wisconsin law relative to the assessment of this property.

AN OIL TAX.

The outlook for the development of great oil fields in Montana is most encouraging. Already this hidden wealth is flowing in a steady stream and in the immediate future all indications point to a heavy output. It is one of our natural resources that, in the very nature of things will, within a few years, be exhausted.

Two years ago I recommended to the Legislature that the people of Montana reserve for themselves a small pittance of this natural wealth of the state in order to help lift the burden of taxation on property that cannot be removed from the state. At that time I suggested not less than 3 per cent of the gross output.

The House passed a 3 per cent gross output bill, which the Senate amended to a 1 per cent tax. Almost immediately afterwards a subsidiary corporation of the Standard Oil Company brought injunction proceedings to prohibit the state from collecting even that bagatelle of its own natural resources. Two weeks ago the Supreme Court reversed the action of the Lewis and Clark county district judge in granting the injunction and held that the state is at perfect liberty to take toll from her oil, under the license provision of our state constitution.

Only a few days before the decision of the Supreme Court in this matter the press reports carried the story that the parent company of the subsidiary company that sought to defeat even a 1 per cent tax on crude oil, had just declared a stock dividend of 400 per cent, thus nega-

tiving the argument of two years ago of our legislators that a license tax on oil "would cripple an infant industry."

Based on the experience the State Treasury has heretofore had in trying to ascertain what, in fact, was the "gross value" of a barrel of oil and to guard against future widely varying returns as to 'gross value," and in order that the state's interests may be in the future safeguarded in the matter, I now recommend that you enact a license revenue law of not less than six cents a barrel on all crude oil hereafter extracted from Montana oil sands.

METALLIFEROUS MINE TAXATION.

Two years ago the Legislature imposed a gross tonnage license tax of 5 cents a ton on all coal mined in this state. This license tax is now yielding about $147,056 per year to the state treasury. Pennsylvania, a little later, imposed a similar tonnage tax on the output of her coal mines that yields about $9,000,000 per year. In 1921 Minnesota enacted a license tax of 6 cents per ton on the entire output of her great iron ore deposits.

Under the provisions of our constitution, Montana has a dual system of direct taxation, one based on "net proceeds" for the mining industry, another for all other forms of visible property, based on cash value, regardless of whether the property yields any "net proceeds" or not. During the past few years the farm lands of Montana have shown no "net proceeds," and still they have been called upon for their regular quota of taxes. During the same period few banks, stores, houses, or other forms of property have shown any "net proceeds," and yet their owners have also been compelled to pay their regular amount of taxes.

Under our present law governing taxes on "net proceeds" and license tax on gross production, for the year 1922.

Oil paid 1 per cent of gross production; coal paid 1.563 of gross production; metal mines paid .066 of gross production in license tax.

The larger metal mines of the state paid nothing, except the minimum fee of one dollar.

For the tax year ending June 1, 1922, under the 15-mill license tax on "net proceeds" of metalliferous mines, 1 per cent gross production on oil and 5 cents per ton on coal, the taxes assessed for the state treasury from these three sources of mineral wealth were as follows:

Metal mines, producing 1,723,801 tons of ore, valued at $20,240,692, paid $13,559
Oil, producing 1,737,859 barrels, valued at $2,811,687, paid 28,116
Coal mines, producing 2,941,120 tons, valued at $9,403,191, paid 147,056

This discrepancy in support of the state government is so patently unjust that I would recommend the enactment of a license tax for metalliferous mines of 12 cents per ton on the gross tonnage of ore produced. In that event the present 15-mill "net proceeds" tax would at the same time be repealed, as it is producing an insignificant revenue.

HYDRO-ELECTRIC POWER.

Next to its land values, probably the greatest potential wealth of the state lies in its unequaled water power. This potential wealth peculiarly belongs to all of the people of the commonwealth. Its use only should be granted to investors seeking yearly return from invested capital. From this great natural resource of the state should perpetually flow a steady income to organized society to help defray the cost of government. The annual return should be as widely distributed as possible to all the people of the state, to whom this great natural resource morally and legally belongs. Water power is peculiarly different from any other of our natural resources in that its use brings no dimunition of the supply. For the future it holds the destiny of civilization itself—the driving of machinery in all its various forms, transportation, light, heat, cooking, the smelting of our ores, the extraction of nitrogen from the air to re-

plenish our worn-out soils, for making explosives, for mining and for armies and navies.

The development of the water power in Montana is only in its very earliest stage of infancy. And still the published returns of one of the power companies now utilizing this great natural resource of the people of the state shows:

That for the years 1919, 1920 and 1921 its gross yearly returns averaged $7,062,685

That the average net yearly returns for the same three years period were 3,798,673

Most of the states now take a percentage of the gross returns of hydro-electric power generated within their borders in lieu of advalorem taxation. As there was no hydro-electric development in Montana and little, if any, in the nation itself, at the time our constitution was written, this form of wealth is not enumerated along with railroads and mines in the constitutional limitations regarding their assessment for taxation.

It is my present judgment, based on the experience of the last two years as a member of the State Board of Equalization, that the state treasury should receive not less than 3 per cent license tax on the gross proceeds of hydro-electric power companies, leaving to the counties the advalorem property tax on the actual cash value of their physical plants. In this way there would be an equitable division made between the physical cash value and the entity cash value of these properties. In this way the present delinquencies of the general fund of the state would be reinforced in the approximate yearly sum of $200,000.

Concurrent with the enactment of the license tax above outlined there should be a proper amendment of Sec. 2143 of the Political Codes.

THE GREATER UNIVERSITY.

The State University at Missoula, the Agricultural College at Bozeman, the School of Mines at Butte and the State Normal at Dillon are the separate units of the University of Montana. The growth of the University of Montana is indicated by the following table, showing the steady increase of the student body at each of the subordinate units:

All Years Ending June 30—	1918	1919	1920	1921	1922
State University	941	1335	1236	1442	1714
Agricultural College	1105	887	1225	981	1203
School of Mines	52	92	126	143	162
State Normal	535	501	645	693	1431
Total	2633	2815	3232	3259	4510

Two years ago a constitutional amendment was ratified levying a 1½-mill tax on all property for the maintenance of these institutions. The appropriation for their maintenance for the year 1921-22 was $714,455. The total 1½-mill tax levied for 1922, deducting nothing for delinquencies, will only yield $697,098 for the Greater University.

The estimated increase in number of students at the four institutions, based on the steady increase during the past five-year period, will in all probability show the following enrollment for the next biennium:

	1923-24	1924-25
State University	1950	2200
Agricultural College	1425	1750
School of Mines	225	285
State Normal	1800	2200
Total	5400	6435

In addition to the extra teaching force required to care for the increased enrollment of students, additional funds will also be required to take care of the greatly enlarged building equipment for heat, light, janitor service and similar expenses. The budget submitted for this

increased student body is as follows (exclusive of federal and miscellaneous income):

1923-24	$898,000	1924-25	$970,000

How shall these certain coming deficiencies be met, in view of the fact that in 1922 1½-mill levy only produced $697,098, with no margin deducted for delinquent tax payments

These estimates, given for University institutions, do not include:

	1923-24	1924-5
Agricultural Experiment Station	$110,000	$120,000
Substations	53,000	55,000
Agricultural Extension	127,000	134,000

as these organizations do not share in the 1½-mill tax, but will have to be provided for from the general fund.

The thought will naturally present itself—why not limit the number of students? Who will then be bold enough to say what young man or woman shall be admitted and who shall be refused admittance to our University The only alternative is increased appropriation from the state treasury.

Appropriations cannot be effectively made from deficiencies already in existence. Executive officials of the state cannot thus coin dollars out of thin air. The responsibility for the solution of this question rests alone upon the Legislature.

THE PUBLIC SCHOOLS.

The school census of 1922 shows 160,221 children of public school age, with an actual enrollment of 122,380 and an average attendance of 98,815. The same census shows 3,655 school buildings, with 6,096 teachers employed. The fact that over 1,500 children were provided no school opportunities last year, and over 4,000 had less than four months of schooling, while 10,000 were given less than a six-months' term, means nothing to some people. To come in contact with such children and their parents, as do the rural school supervisors, and read letters from parents pleading the rights of children in rural sections, brings home the tragedy that these figures mean.

The main trouble with our public schools in Montana comes from the unequal distribution of the school funds. Last year a mother in Fallon county drove a team 21 miles a day to get her children to and from school, at the same time taking with her three small children who could not be left at home alone. One 9-year-old girl in Custer county rode horseback to and from school 18 miles a day. An eighth-grade Rosebud county boy walked 16 miles a day to get an education. A row of dugouts in the hillside in Powder River county were occupied by parents and school children who had no opportunities in their own districts.

In other districts the schools have had too much money, largely derived from corporation property situated within the districts, the revenue from which under our antiquated tax laws cannot be equally distributed for the benefit of all the children of the state. One district with seven children of school age, but located on the main line of a railroad, one year ago built a new school building, with auditorium, hot and cold water, lavatories, indoor toilets and then employed a janitor at $75 per month.

Under our present system of distributing the public school tax levies we pamper one school district and pauperize another. Last year many school districts, on account of the accident of location along lines of railroad or power lines, maintained their schools without any special levy.

In other districts the people were compelled to levy special taxes, varying as high as 64 mills, in order to give their children the opportunity of an eighth-grade education. The overwhelming burden of the

schools is thus falling with unequal weight on the people of the individual districts.

As long as Montana continues to draw so large a percentage of its school funds from its smallest taxing unit—the school district—it will continue to neglect thousands of its children and to impose unequal tax burdens upon its people. The following table will show the tendency in accentuating the evil:

	1914-18	1920	1922
District Tax	62.5	54.2	71.2
County Tax	22	32	19.1
State Funds	12.8	8.3	6.6
Other sources, such as fines	2.7	5.5	3.1

Other states have solved this acute problem by distributing railway and income taxes pro rata among all the school children of the state. The following table shows how some of our neighboring states are thus equalizing the school burden:

For the School Year of 1921-22.

	Amt. State Aid	Per Capita	Per Cent Borne by State
Utah	$ 3,250,000	$ 23.90	33 1-3%
Washington	5,277,164	32.80	25
California	15,679,000	700.00 per teacher	40 Grade 15 High
Montana	885,082	4.90	
	From School Lands		
	80,000	.50	6.6
	Gasoline		

UNLAWFUL DIVERSION OF SCHOOL MONEY.

The Federal Enabling Act granted to Montana Sections 16 and 36 of the public lands in Montana, "the proceeds to constitute a permanent school fund, the interest of which only shall be expended in the support of said schools."

The Constitution of the State provides:

"Such public school fund shall forever remain inviolate, guaranteed by the State against loss or diversion."

In plain contravention of these express prohibitions of both the Enabling Act and the Constitution, I find that from 1910 to 1920 the expenses of the State Land Office were largely paid out of the receipts from sales and rentals of these school lands. During these ten years $692,000 was thus diverted from the Common School Interest and Income Fund.

I further find that from July, 1907, to December, 1920, the additional sum of $247,305, accruing from depository interest earned by the Common School Fund, was unlawfully diverted to the General Fund of the State. This money should have been yearly distributed to the Public Schools of the State.

In this way the Common School Fund, which the Constitution says "shall forever remain inviolate, guaranteed by the State against loss or diversion," has been depleted in the sum total of $939,305. The amount should be returned to the Permanent School Fund from the General Fund of the State, and action should be taken looking to its restoration.

AN INCOME TAX FOR SCHOOLS.

The great economist, Adam Smith, in his monumental work on "The Wealth of Nations," discussing the question of taxation, says:

"The subjects of every state ought to contribute toward

the support of the government as nearly as possible in proportion to their respective abilities, that is in proportion to the revenues which they respectively enjoy under the protection of the state."

Under our general plan in Montana of levying practically our entire revenue from a property tax alone, we have very largely reversed the true theory of contribution according to our ability to pay.

In the able report of the Special Tax Commission created by the Legislature in 1917, in discussing this phase of taxation, the Commissioners, Messrs. Leonard, Hilger and Lindsay, quoted one of the eminent American authorities as saying:

"Practically, the general property tax, as actually administered, is beyond all peradventure the worst tax known to the civilized world. It puts a premium on dishonesty, debauches the public conscience. It reduces deception to a system, and makes a science of knavery; it presses harder on those least able to pay. It imposes double taxation on the one, and grants entire immunity to the next. In short, the general property tax is so flagrantly inequitable that its retention can only be explained through ignorance or inertia."

And yet this is the antiquated system under which Montana is attempting to carry on government today.

Practically all modern systems, state and national, recognize the equity of the graduated tax on incomes.

There are several thousand people in Montana who enjoy good incomes and yet are contributing little, and in some instances nothing, to the support of organized society. Under our system of taxation a man may have invested in stocks, bonds and mortgages $10,000, $50,000 or even $1,000,00 in these forms of wealth and yet entirely escape state taxation—not Federal. The man who invests in land, home or business is thus penalized as against the man who invests in property which the assessor cannot see with his eyes.

Professor Seligman of Columbia University, in speaking to the county assessors of New York State three years ago, when discussing the question of invisible wealth, made this statement: That while it was agreed that a majority of the wealth of New York City consisted of invisible and intangible wealth, the real estate in the city carried 96 per cent of the burden of taxation and the intangible wealth of New York City only 4 per cent.

New York, however, equalized its tax burden by the enactment of inheritance and income tax legislation.

Facing as we do, a real crisis in the matter of government, and in order to transfer some portion of the present burden from that form of property that makes less net return than any other and which now carries most of the burden—land—I urge upon you the necessity of a moderate, graduated income tax, the proceeds of which, after deducting a small percentage for the general fund to cover cost of administration, shall be used exclusively for the support of the public schools of Montana and pro rated to each child in the state.

I know the argument being made that an income tax is not "popular," but in our inner consciousness we each know that it is "right". I am not unaware of the human tendency that causes each one of us to query, "How will it affect me personally?"

Unless there be more millionaires in this body than I now surmise, my own judgment is that whatever amount you will pay in the form of income tax will to that same extent, and probably in a greater degree, lift the tax levies now being made as a property tax on lands, homes and business.

The enactment of a graduated income tax, applicable to corporations and persons alike, should carry with it a repeal of the present corporation income license tax law. It should also exempt from personal in-

comes money received from corporate dividends, where the tax has already been paid at its source, otherwise we would be imposing double taxation.

AFFECTING SMALL INCOMES.

The whole theory of an income tax is not to disturb incomes below the point necessary for the decent maintenance of the individual and his family. That amount is first set aside as an exemption from the income earned. Only the surplus income is affected by the income tax.

For instance, should we follow the exemptions allowed under the Federal income tax law and apply a 2 per cent tax to the smaller incomes, a single person would pay nothing on the first one thousand dollars of his income. If his net earning should amount to $1,500 per year, he would only pay the 2 per cent on the extra $500, or $10. If his net earnings were $2,000.00 per year his contribution would be $20.00.

If married, he would be first entitled to a $2,000 exemption, and in addition to $300 for each child under 18 years of age. For example, a married person with three children would pay no income tax unless his income exceeded $2,900 per year. If his net income were $3,500 per year, he would pay 2 per cent on $600, or $12.

If his income were $4,000 per year, the 2 per cent tax on the excess $1,100 would be $22.

To the extent that public school funds are raised from income taxes, the property tax levy on farms, homes and business would be proportionately reduced.

The man who is receiving a good income from investments in the invisible forms of wealth and who is now escaping his share of taxation will be forced to contribute his equal portion. Under our present system of levying taxes only on the visible forms of wealth, he is now avoiding his duty to society.

THREE SUGGESTED CONSTITUTIONAL AMENDMENTS.

At this time there is absolutely no qualification prescribed for the office of County Superintendent of Schools. In order to hold positions of responsibility, like doctor, lawyer, dentist, minister, engineer, forester, school teacher, carpenter, brickmason or printer, special qualifications for the position must be shown by examination held either under state boards or professional or trade organizations. Under our constitution, there is no qualification necessary for holding this most important position. The grade school teacher must hold certificate of qualification, the County Superintendent none. I suggest to you and to the schools of the state, public and private alike, the importance of rectifying the present situation.

TAXATION OF TIMBER.

Under our constitutional mandate the present system of taxing our diminishing timber supply is not only an economic crime, but threatens the future welfare of the state. It enforces the cutting of our timber supply for the future, ahead of its natural time, by its present owners, in order to avoid absolute confiscation.

Timber, like minerals, should contribute an extra heavy tax when severed from the soil. It is my belief that Montana, in self-defense of its own future development, and in order to conserve its invaluable timber resourses, should change the present unscientific method of taxing timber providing a moderate annual tax on the land and a heavy toll from the timber itself at the time it is harvested.

This can only be accomplished by an amendment exempting standing timber from the recurrent annual taxes on the same identical forest crop and giving the next Legislature power to adjust the severance tax in accordance with the unanimous judgment of all political economists and forestry officials.

RAILROAD TAXATION.

California, Wisconsin and many other states have long since abandoned the practice of diverting the entire taxes of their systems of transportation to the local communities through which they happen to run. Railroads are supported and maintained by freight and passenger rates contributed by all the people and all of the land and industry in the state.

It is manifestly unfair to absorb the entire tax revenue laid on the railroads by a comparatively small number of local units of government. Following the more equitable plan now in vogue in the more progressive states of the Union, Montana's state government should collect the entire tax revenue from its railroads and then pro rate it back to all the local communities on the basis of school population.

BANKING.

The breaking down of the bank situation consequent upon the deflation and long drought period has not been the least of our troubles and has given us no little concern. There were about 431 banks in the state in the fall of 1920, when the crash came, one-third of which were National banks and two-thirds State banks. Of these, 42 State banks, having employed capital of $2,173,954 and deposits of $7,876,640, have closed their doors, of which 11 have been reinstated to solvency and are now doing business. The Superintendent of Banks, in his official report to me, recommends many changes in the banking code, and among other things says:

"In my judgment the trying times through which we have just passed have demonstrated that our banking laws are 'all sail and no anchor.' This is accounted for, doubtless, by the fact that they were drawn at a period when times were good and every sail was filled with fair winds, and no living man dreamed of such tests as those to which we have been put. During this period of trial the department has found need of larger powers and more direct and speedy remedies for a vast number of ills to which we are heir. The remedies now recommended are almost all of a capital nature. In fact, about the only penalty now to which we may subject the delinquent bank is receivership. This is suicidal and defeats the object of supervision."

We should be armed with the necessary authority to avoid this by commanding the situation before it is let drift too far and by repairment avoid calamity. The work of our predecessors is to be commended, but "new occasions teach new duties," and now that our banking code has been found without teeth in so many respects, I would respectfully recommend rewriting same to a very large extent and would incorporate many changes, and more especially the following:

1. That the department be given authority to levy stock assessments to make good capital impairment and provide that such assessment be a prior lien on the stock of record, and that same may be sold and effectively transferred to pay such assessment.
2. That a law be enacted providing a method of voluntary liquidation and consolidation of banks.
3. That the department be vested with authority to appoint liquidating officers instead of the present receivership method in case of bank failure.
4. That a law be enacted providing for the liquidating officer to enforce the double-liability statute on stockholders.
5. That a loan limit be fixed at 10 per cent of capital and surplus and that surplus be as inviolate as capital, except on permission of Superintendent of Banks.
6. That too free borrowing by the bank be controlled, if possible.
7. That excessive pledging of collateral be controlled, because after all, the collateral pledge is the money of the depositor, and when trouble

comes the collateral may be sold under the pledge law, and thus the depositor may be ruined, as well as the bank.

8. That borrowing of money by the issuing of certificates of deposit of the bank itself to other banks be prohibited.

9. That what is generally spoken of as blanket guarantee, by directors and officers and their friends, be discouraged. I know no surer road to ruin than the guarantee.

10. That real estate loans should be further circumscribed and examinations should delve more deeply into classifications of loans and deposits, to the end that seasonable maturities may be procured, to guard against the lean season in the bank's 12-month run, and savings should be administered within the rules of the Federal Reserve Bank Act.

11. That taking second mortgages should be held strictly within the letter and spirit of the law.

12. That a law be enacted providing that where a considerable percentage of depositors owning or controlling a considerable proportion of deposits of a suspended bank agree upon articles of reorganization, approved by the Superintendent of Banks, then the remaining depositors and deposits owned or controlled by them are bound by the agreement the same as if they had joined in its execution.

13. That the percentage of reserve should be raised to 20 per cent and penalty provided for insufficient reserve."

A BANK DEPOSIT GUARANTEE LAW.

The desirability of a law guaranteeing the safety of bank deposits is recognized by everyone. If it is possible to enact a law of this kind without sacrificing the well-administered bank to the badly-conducted bank, it would, without question, work great good to all the people of the state. Such a law would bring large sums of money from hiding places, restore public confidence and prevent disaster to thousands of innocent depositors.

It would undoubtedly result in better supervisory control over banking operations and largely put an end to many questionable practices that have been indulged in in the past that are not consistent with sound operation.

A bank deposit guarantee law would certainly tend to make all good banks more solicitous as to unsound methods pursued by other members of the combined organization. That in itself would, in a great measure, eliminate some evils and bring about a more strict enforcement of the present banking regulations. Some have argued that, while the plan is good in theory, the present is not the right time to inaugurate the change on account of the large number of failures during the past two years. On the contrary, it might well be said that the weaklings, having already been eliminated, now would be the opportune time to enact the guarantee law. That its being put in force at this time would prevent a repetition of the failures of the past and prevent the issuance of new charters for which there is no legitimate economic demand, I would at least suggest a careful study of the question and a survey of the present situation.

AN OPPORTUNITY FOR SERVICE.

In conclusion, I congratulate you upon your present opportunity to render real service to the people of Montana, who have so recently given into your hands the great powers temporarily entrusted to your keeping.

The people were never more ready for a constructive program. They were never more impatient of petty partisan politics that cause delay. They are looking to the membership of this present body for real results, and will not be content with platitudinous explanations of failure in accomplishment. The man of vision recognizes the fact that former party ties rest but lightly on a majority of the men and women

of the nation. The old-time appeals to party prejudice no longer bring forth real response from the mass of our citizenship.

Let all of us, so far as the limitations of human nature permit, eliminate the petty things of politics and partisanship and personal prejudice, and for the next 60 days work together in a sincere spirit of doing the bigger things for Montana.

Notwithstanding the clouds that may temporarily lower over Montana, the republic and the world itself, I have an abiding faith in the sanity, the fairness and the ultimate good judgment of the controlling majority of 110,000,000 Americans.

I verily believe that Montana has already passed through her Gethsemane of the involved aftermath of the great world debacle and that on the mountain tops of Montana can already be sen the sure sign of the breaking of a brighter day.

Not for one moment have I lost faith in America or Montana or our Constitution or in the spirit of our people.

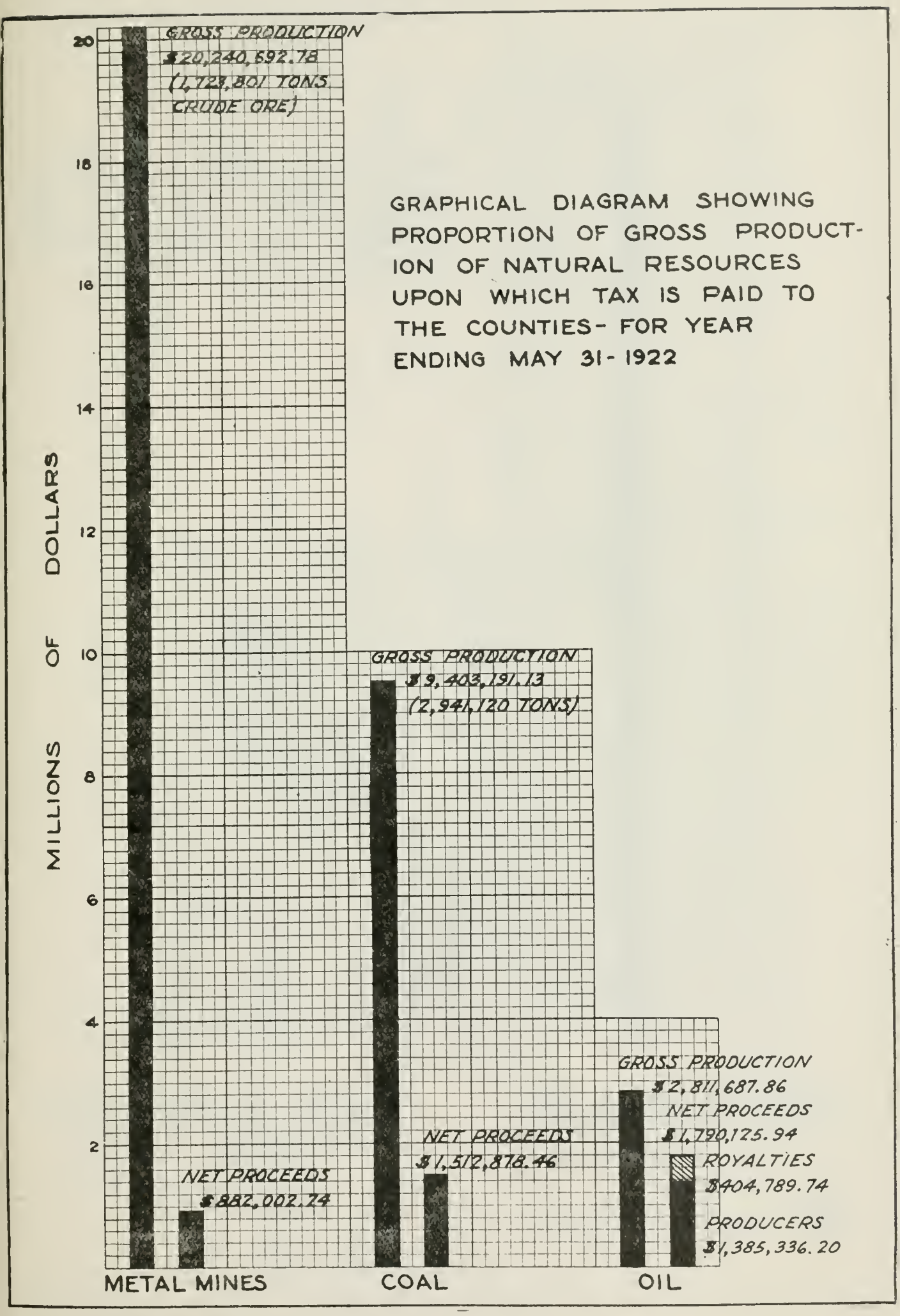
When doubt and discouragement come, reread the inspiring lyric of a great American:

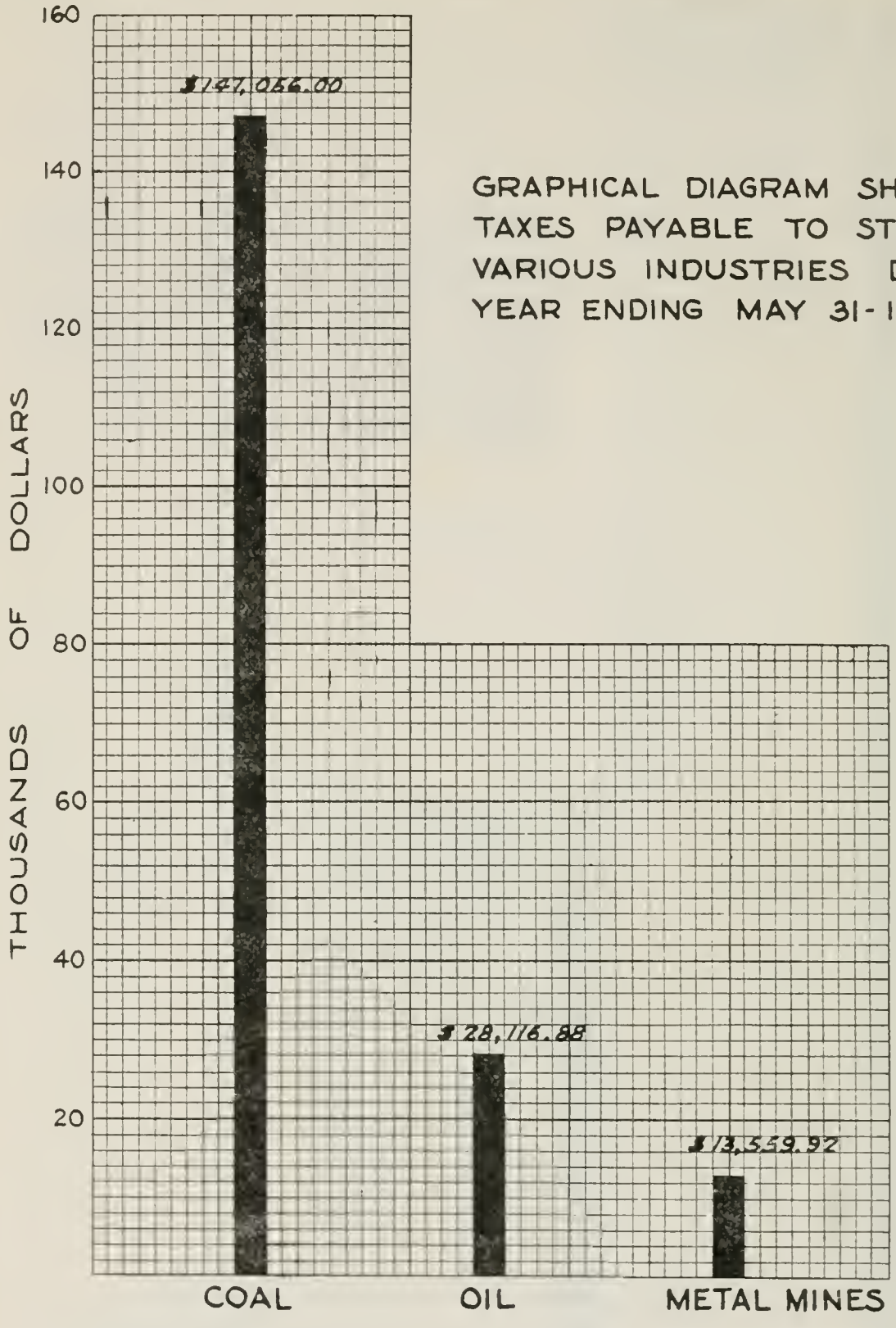
"Sail on, sail on, O Ship of State!
Sail on, O Union, strong and great!
Humanity, with all its fears,
With all the hope of future years,
Is hanging, breathless, on thy fate!
Fear not each sudden sound and shock,
'Tis of the wave and not the rock;
In spite of rock and tempest roar,
In spite of false lights on the shore,
Sail on, nor fear to breast the sea,
Our hearts, our hopes are all with thee.
Our hearts, our hopes, our prayers, our tears,
Our faith, triumphant o'er our fears,
Are all with thee, are all with thee!"

Ladies and gentlemen, I thank you.

JOS. M. DIXON.
Governor.

Helena, Montana, January 2, 1923.


GRAPHICAL DIAGRAM SHOWING PROPORTION OF GROSS PRODUCTION OF NATURAL RESOURCES UPON WHICH TAX IS PAID TO THE COUNTIES- FOR YEAR ENDING MAY 31- 1922
MILLIONS OF DOLLARS
20
18
16
14
12
10
8
6
4
2
GROSS PRODUCTION
$20,240,592.78
(1,723,801 TONS CRUDE ORE)
NET PROCEEDS
$882,002.74
GROSS PRODUCTION
$9,403,191.13
(2,941,120 TONS)
NET PROCEEDS
$1,512,878.46
GROSS PRODUCTION
$2,811,687.86
NET PROCEEDS
$1,790,125.94
ROYALTIES
$404,789.74
PRODUCERS
$1,385,336.20
METAL MINES
COAL
OIL



GRAPHICAL DIAGRAM SHOWING TAXES PAYABLE TO STATE BY VARIOUS INDUSTRIES DURING YEAR ENDING MAY 31-1922

PRODUCTION LICENSE TAXES PAYABLE DURING PERIOD

OIL — 1% of Gross Production

COAL — .05 per Ton

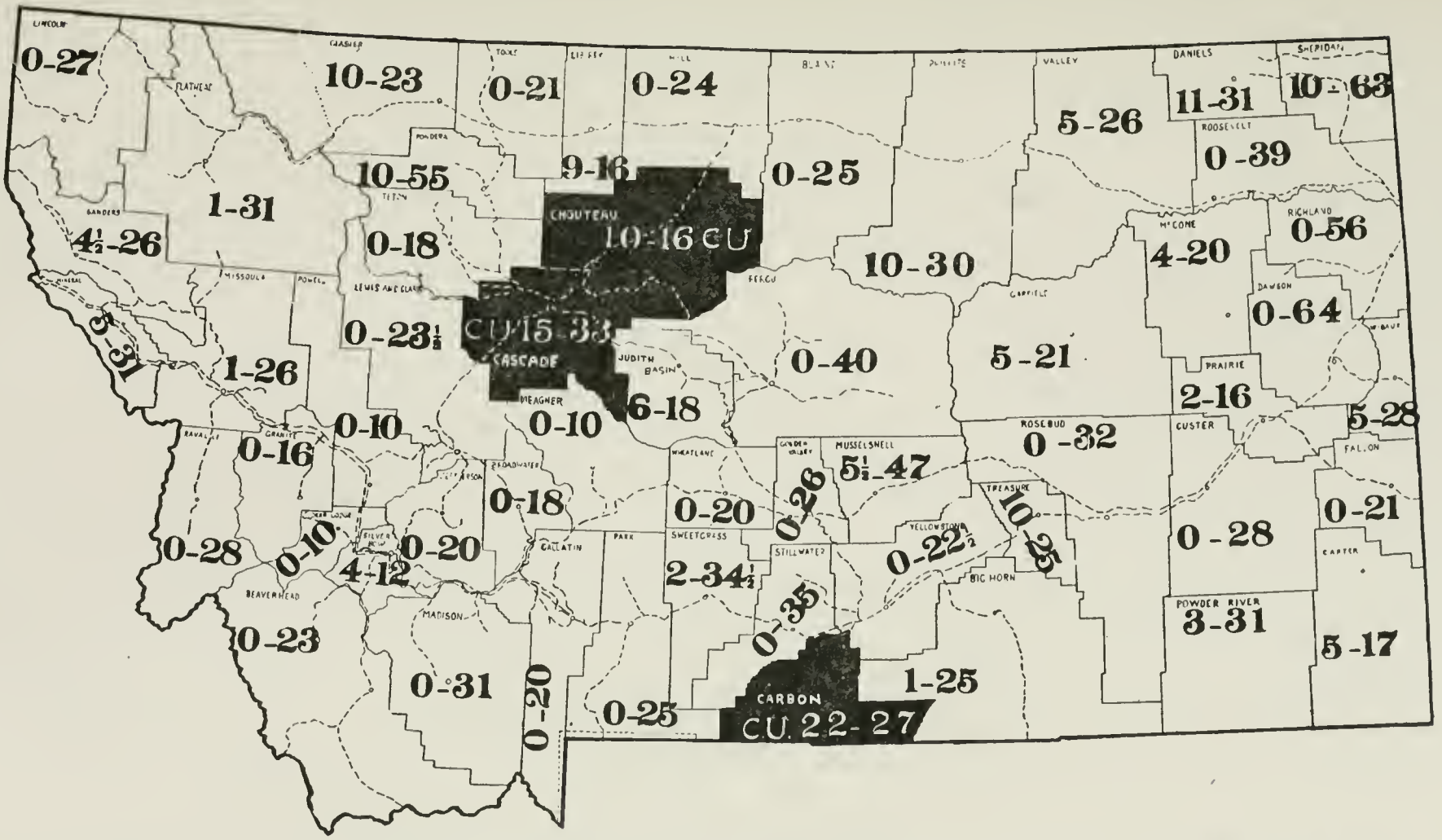
METAL MINES - 1½% of Net Proceeds

PER CENT OF GROSS PRODUCTION PAID IN LICENSE TAXES DURING PERIOD

OIL — 1%

COAL — 1.563%

METAL MINES - .0667%



The figures in each county show the high and low special tax levies for school districts. For instance in Beaverhead county the lowest special district levy is 0 and the highest is 23 mills.

Counties in black have adopted the county unit plan of administration of their rural schools. This plan provides a uniform levy marked C. U.